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Climate Finance after the Paris Agreement: new directions or more of the same?

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Climate Finance after the Paris Agreement. New directions or more of the same?

Paula Castro/Carola Betzold

In December 2015, almost 150 heads of state and government gathered in Paris to open the talks that were to deliver a new climate change agreement. After repeated failures to reach a deal that would satisfy all countries' expectations on how to prevent dangerous climate change, hopes on the Paris Agreement were high but also cautious. According to most media coverage, the meeting's outcome widely exceeded expectations and offers a new chance to successfully address one of the most complex multilateral cooperation problems of our times. Paris was undoubtedly an example of the best multilateral diplomacy, where the host achieved to maintain full legitimacy and transparency and trust in its leadership. In substantial terms, it managed to break the over 20-year old strict separation of the world into

developed ("Annex I") and developing ("non-Annex I") countries in terms of their mitigation commitments, and marked a paradigm change from the Kyoto-Protocol-style top-down mandatory absolute emission reduction targets to a more bottom-up system of voluntary pledges of diverse types.

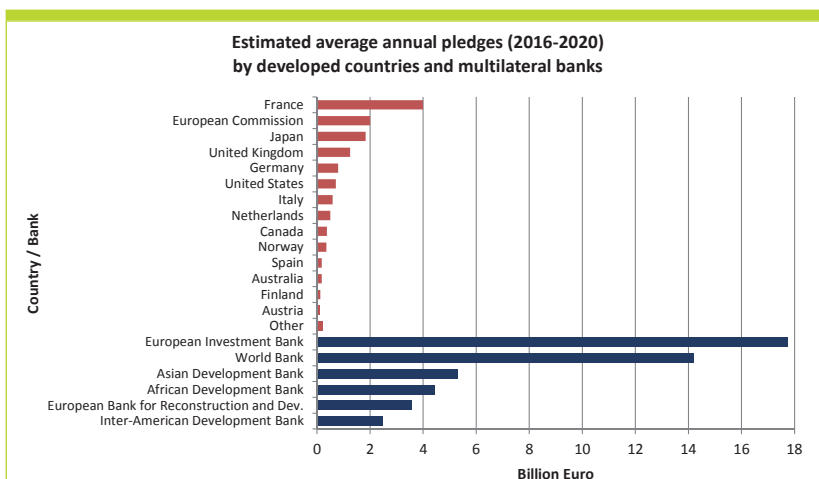
Climate finance has remained a crucial component of the agreement. It is important in diplomatic terms as a way to gain support and trust from developing countries, and in substantial terms as a key means for delivering the needed mitigation and adaptation in developing countries.

While Parties did reach an Agreement in Paris, many questions around climate finance still remain open: How much finance is to be provided? What should count as climate finance? Who should provide how much? How should climate finance be distributed? How can we measure and verify climate finance flows? And who is to decide on these issues?

These questions are contested, and they are not new. Here, we discuss where the Paris Summit has moved forward – if it did move forward at all. We thereby focus on three central issues: the overall volume of climate finance, its sources and its distribution.

A short history of climate finance

The provision of funding from developed to developing countries has been a central element of the cli-



Note: The "other" category includes Luxembourg, Belgium, Denmark, Ireland, New Zealand, Iceland, Poland, Czech Republic, Estonia, Hungary and Lithuania. This list of pledges is not necessarily exhaustive. The figures have been estimated on the basis of public announcements that are not always very detailed. What countries count within their pledges is not necessarily comparable.
Source: <http://www.cop21.gouv.fr/en/list-of-recent-climate-funding-announcements/>

mate change negotiations since their inception. Yet, for a long time, negotiation texts and outcomes did not specify the required level of funding. The 1992 United Nations Framework Convention on Climate Change (UNFCCC), recognizing the “common but differentiated responsibilities and respective capabilities” of states, stipulated that developed countries “provide new and additional financial resources” to assist developing countries in meeting their obligations under the Convention as well as in adapting to climate impacts. Yet funding was not readily forthcoming. Acknowledging that the levels of finance provided were insufficient, Parties set up three multilateral funds at the Conference of Parties (COP) in Marrakesh (2001): the Special Climate Change Fund, the Least Developed Countries Fund and the Adaptation Fund. Climate finance overall continued to be sparse and filling these funds a challenge, although the latter receives a share of the proceeds from the Clean Development Mechanism (CDM). The CDM is one of the flexibility mechanisms of the Kyoto Protocol (1997); it allows developed countries to fund mitigation measures in developing countries and count emission reductions thus achieved toward their own commitments. A 2% levy raised on the CDM’s proceeds is used to fund the mechanism’s administration and the Adaptation Fund.

Only in the most recent round of negotiations, starting with COP 13 in Bali (2007), did climate finance take centre-stage. While the 2009 Copenhagen Summit is widely seen as a failure, it marked a breakthrough on climate finance as specific numbers were brought up for the first time. In an effort to salvage the Summit, developed countries promised “scaled-up, new and additional, predictable and adequate funding”. Specifically, in the Copenhagen Accord they pledged 30 billion USD in so-called “Fast-Start Finance” for the period from 2010 through 2012 as well as committed to “a goal of mobilizing jointly USD 100 billion dollars a year by 2020”. This target was confirmed and formalized in Cancún the following year, and has been high on the agenda since then. A significant part of this funding should flow through the newly established Green Climate Fund, a new multilateral financial mechanism under the UNFCCC to assist developing countries with mitigation and adaptation while encouraging national ownership of the funded projects and programmes.

How much climate finance?

Since the Copenhagen Accord, the USD 100 billion target has become the “gold standard” of climate finance, the point of reference of any pledge. At Paris, Parties reiterated the USD 100 billion target as it was crucial to get developing countries on board. The decision that accompanied the Paris Agreement – of less weight than the Agreement text itself – extends this target up to the year 2025 and calls for a new collective quantitative target

of *at least* USD 100 billion from 2025 onwards, to be agreed by 2025. At the same time it “*strongly urges* developed country Parties to scale up their level of financial support, with a concrete roadmap to achieve the goal of jointly providing USD 100 billion annually by 2020 for mitigation and adaptation while significantly increasing adaptation finance from current levels”. Germany was the first of a group of developed countries announcing scaled-up climate finance in the run up to Paris, and pledged to double it to EUR 4 billion until 2020. The graph on page one shows annualized estimates of the pledges made by the largest developed countries and multilateral banks in the run up to and during the Paris Conference. Yet, the Paris Agreement itself does not contain any numbers. It simply stipulates that “Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention”.

While the figure of USD 100 billion is an important political signal, it is not enough to meet the challenges of low-carbon development and adaptation. Thus, in terms of the overall volume of climate finance, the Paris Agreement represents stagnation and only partially meets developing countries’ demands for a clear pathway to scaled-up finance. Rather than providing a new and more ambitious target, the Paris Agreement adopts the USD 100 billion as a floor and leaves the decision on a new target to 2025.

Where should climate finance come from?

Where should the USD 100 billion come from? What should count as “climate finance”? As previous agreements, the Paris Agreement speaks of *mobilizing* climate finance “from a wide variety of sources, instruments and channels” and notes “the significant role of public funds”. In practice, many developing countries insist that climate finance (mostly) come from public sources, while developed countries want to include both public and private flows.

Given the vague text, consistent and transparent accounting becomes crucially important. Donors have in the past been frequently accused of re-labelling regular aid as “climate finance”. For example, a heated debate arose in Paris as India challenged figures of the Organisation for Economic Co-operation and Development (OECD), arguing that climate finance in 2013–14 amounted to only USD 2.2 billion and not 57 billion as an OECD study claimed. As a response, in Paris Parties decided to develop standardized modalities, procedures and guidelines “for the accounting of financial resources provided and mobilized through public interventions”, based on which developed countries will submit biennial reports on climate finance.

The Paris Agreement also opened possibilities for new actors to provide climate finance. On the one hand, it encourages developing countries to “provide or continue to provide such support voluntarily”, thus further softening the developed-developing country divide. Eight developing countries already pledged contributions to the Green Climate Fund, while China pledged USD 3.1 billion for setting up a South-South Climate Fund. With this new fund, China will provide funding to developing countries outside of the UNFCCC system. On the other hand, on the sidelines of the official negotiations, private providers emerged: private banks, insurers, institutional investors or other private initiatives also pledged funds. This is significant, as it shows that the expected mobilization of private financial flows is already starting. However, it also raises new challenges, for it is unclear how such private funds count towards the USD 100 billion target.

In sum, there are some steps forward, but also some steps backwards: The wording “new and additional” has completely disappeared from the text. Similarly, there is no reference to “innovative” finance sources as new ways of mobilizing funds in a more predictable and sustainable way.

Where should climate finance go to?

Just as important – and contested – as the question of sources is the question of distribution, in terms of both recipient countries and addressing adaptation or mitigation. The Paris Agreement reaffirms the aim of achieving a “balance” between funding for adaptation and mitigation and calls on Parties to consider “country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints”. As previous texts, it explicitly mentions least developed countries (LDCs) and small island developing states (SIDS), though not African countries. Yet beyond these broad categories there is no guidance on how to allocate climate finance.

In practice, the Green Climate Fund seems to strive for a balance between adaptation and mitigation and a broad regional coverage. So far, eight projects have been approved: two in Latin America, three in Asia-Pacific and three in Africa. Four LDCs, four SIDS and four other developing countries are the first beneficiaries. Five projects address adaptation, one, mitigation and two, both.

Yet, most climate finance will not flow through the Green Climate Fund and other multilateral funds but through bilateral channels. Donors can thus decide autonomously what to fund and where. This not only allows them to consider their own economic and political interests but also makes it more difficult to identify the climate-relevant projects and disentan-

gle them from traditional development aid. The new accounting guidelines and procedures, including the biennial reports, will hopefully provide clarity in this respect.

Moving forward from Paris

Climate finance is and will continue to remain central on the climate change agenda. For developing countries to subscribe to any agreement and to implement mitigation and adaptation measures, financial assistance is crucial. To make climate finance commitments credible, we need in particular

- **A formal pathway on achieving the USD 100 billion target and further quantitative targets** as benchmarks and points of reference. Although this is likely to be politically very contested as donors are generally unwilling to tie their hands, the Nationally Determined Contributions (the documents in which Parties are supposed to pledge their planned contributions towards mitigation and adaptation) should also contain their individual climate finance pledges.
- **Clear and agreed-upon definitions of what counts as climate finance**, regardless of whether this finance comes from public or private sources.

Public funding from developed countries will be insufficient to meet the real financial demand. Therefore, it is crucial that

- **New actors get on board, including the private sector, developing countries and innovative sources of finance.**
- **(Co-)funding from countries traditionally categorized as ‘developing’ is encouraged.** Some already made pledges to existing funds, namely the Green Climate Fund, or announced support outside existing structures, like China’s South-South Climate Cooperation Fund. Financial contributions made available or mobilized by developing countries should be accounted for separately from the USD 100 billion target, which is a benchmark for developed-country contributions only.
- **The debate on “innovative” sources of finance is re-opened** – including for example levies and taxes on international aviation and shipping or currency transactions. Such automatic contributions are more stable and predictable than donor commitments, and they clearly are “new and additional”, thus avoiding the problem of re-labelling other flows as climate finance and shifting funds away from other pressing development needs.

- **The private sector is regarded as a key partner**, particularly for moving investments away from high-emitting technologies towards mitigation and low-carbon development. A “fossil fuel divestment” movement is starting among NGOs and institutional investors – such initiatives need to be discussed in the negotiations, both in terms of their opportunities for accelerating mitigation and the challenges they imply for those economies highly dependent on fossil fuels.

As yet, there is no guidance on how to allocate climate finance, beyond the reference to “country-driven strategies” and particularly vulnerable countries.

- **More objective criteria for guiding allocation should be discussed**, while ensuring that flexibility is kept.
- **For the case of adaptation, equity should be the main allocation criterion** – equity not in terms of everybody getting an (equal) share of the cake, but in terms of allowing equal life and livelihood opportunities for everyone.
- **For the case of mitigation, while cost-effectiveness should be a key criterion, other aspects need to be taken into account** to ensure a fair distribution and a long-term strategy. Those countries in which reducing emissions is most cost-effective are frequently the emerging economies, which also already have a substantial capacity to act by themselves without external aid. In addition, investment in research, development and deployment of promising new technologies needs to be increased to ensure long-term cost reductions.
- **Country ownership of the financed projects is key to ensure sustainability**. Thus, more formal links between climate finance and the existing national-level plans for mitigation (Nationally Appropriate Mitigation Actions and Nationally Determined Contributions) and for adaptation (National Adaptation Programmes of Action and National Adaptation Plans) need to be created. Particularly for the case of adaptation, recipient countries are best informed about where support is most necessary. There needs to be a mechanism that makes allocation take into account the planning tools that are already available.

Finally, finance and support are means to an end: to avoid (or at least to reduce the consequences of) dangerous climate change. The focus on climate finance and the USD 100 billion target should not divert attention from other, non-financial support that is at least as important as financial assistance, including technology transfer and capacity building. Mitigation and adaptation are the overarching goals of the climate change regime, and all means of support including climate finance should serve that purpose. Meeting political financial targets are necessary for achieving confidence and trust, but they will only be meaningful to the extent that they are used for effective mitigation and adaptation.

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